■ TEAMWORK SECRETS • SALES MEETINGS THAT SELL • NY INCENTIVE SHOW

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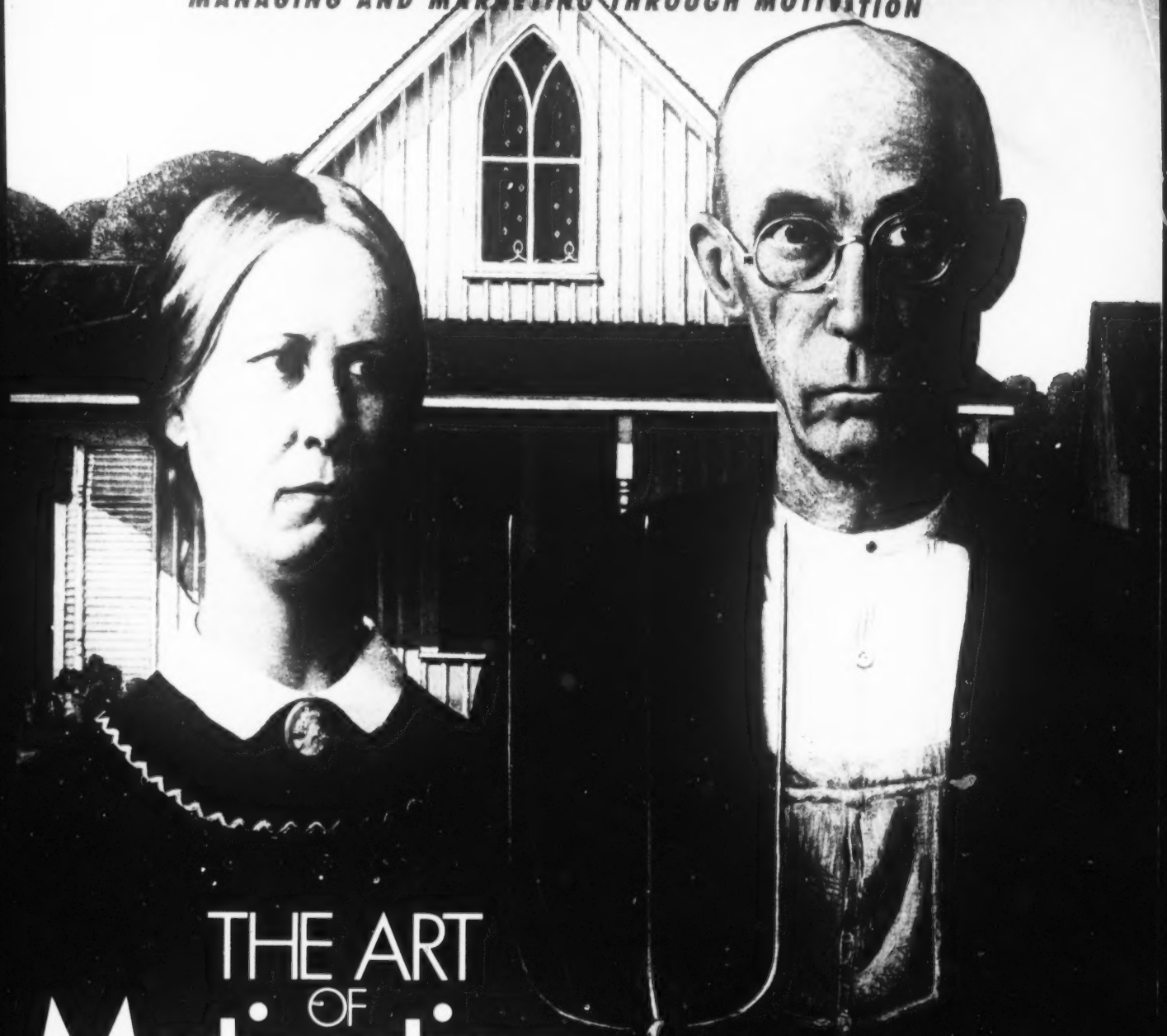
APRIL 1990

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION



THE ART OF Motivating Spouses

A BILL PUBLICATION

APRIL 1990

INCENTIVE

86TH YEAR, VOL. 164, NO. 4

FROM THE EDITOR

6 Send Us Your Scams
Unethical promoters hurt everyone by making consumers wary of legitimate offers.

OPINION

8 The Value of 'Celebrating'
Dick Bartlett, president and chief operating officer of Mary Kay Cosmetics, says if you're just patting people on back, you're probably putting up a front.

CURRENTS

12 Cosmo Promo Sweeps Agencies
- **Service Comes First for Yamaha Dealers**
- **900 Number Eases Tax-Time Torment**
- **Can Offbeat Frequent-Flyer Prizes Tempt Travelers?**
- **Pactel: More Winners Mean Better Morale**
- **New Incentive Show Hits West Coast**
- **Does Lifestyle Hinge on Output?**
- **Bernard Kovach, BillCom CEO, Dies**
- **Leading Editor at Bill Dies**

CONFERENCE REPORT

22 New Ideas Highlight N.Y Show
- **NPSE Sessions Cover Trade**
- **Scott Paper: Premium Ideas**
- **How P&G Put Fizz in Soda Promo**
- **Beatrice Exec Takes Motivator Award**
- **Promo Shopping, Supermarket-Style**
- **Using Videos to Push Products**
- **Show Schedule**
- **Food For Thought: Show Eating**
- **New York at Night**

COVER STORY

34 The Art of Motivating Spouses
Your biggest allies in dealer and sales programs? Husbands, wives and significant others.

INCENTIVE MARKETING

43 FACTS Survey: Dealer Motivation
The good news: Companies are running more incentive programs. The bad news: They're seeing fewer returns.

50 Gold Keys, Golden Promotions
Eight companies win honors for creative promotions.

CONTINUED ON NEXT PAGE

Team spirit. Page 86

Spicy sales meetings. Page 54

When Happily Marrieds Are Secretly Unfaith
I've Got a Better Body Than I Had at Twenty Thanks to Melanie Griffith and Jane Fonda

Cosmo promo. Page 12

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INCENTIVE MARKETING

CONTINUED FROM PAGE 3

54 Wacky Ways to Wake Up Meetings
Make 'em laugh; it's a great way to drive home a point during a key sales meeting.

85 Promotion Review

EMPLOYEE MOTIVATION

86 Keeping Team Spirit Alive
Having trouble keeping work teams on track? Here are some common problems and suggested solutions.

88 New Facets of Service
A retail jewelry chain teaches salespeople how to polish their customer service skills.

INCENTIVE TRAVEL

92 Inside Asia
Visit a Chinese village, see a Japanese tea ceremony or take a Thai cooking lesson.

104 The Road to Morocco
An international optical firm sends 150 people to the African kingdom.

105 Ideas

106 Italian Flavor
Food is at the heart (and stomach) of any trip to Italy.

MERCHANDISE

113 The Right Tools
People of all ages want tools. The trick for incentive buyers is figuring out which ones appeal to whom.

115 Gulf Oil: Pumping Up Sales
A frequent-buyer promotion offers drivers a way to earn products and services by consistently choosing Gulf over other brands.

116 Ideas

RESOURCES

117 Marketplace
120 Personnel
120 Associations
120 Service Companies
121 Events
124 Advertisers Index

Inside Asia. Page 92

Power tools. Page 113

FACTS SURVEY
Dealer Motivation

Good and bad news: Companies are running more incentive programs but seeing fewer returns.

Retailers and wholesalers are earning just as many incentive awards as last year, but they are actually delivering fewer sales dollars in return for their efforts. According to **Incentive**'s recent survey of 154 companies, this trend is coupled with another slight but unhealthy development: The cost of awards has increased slightly.

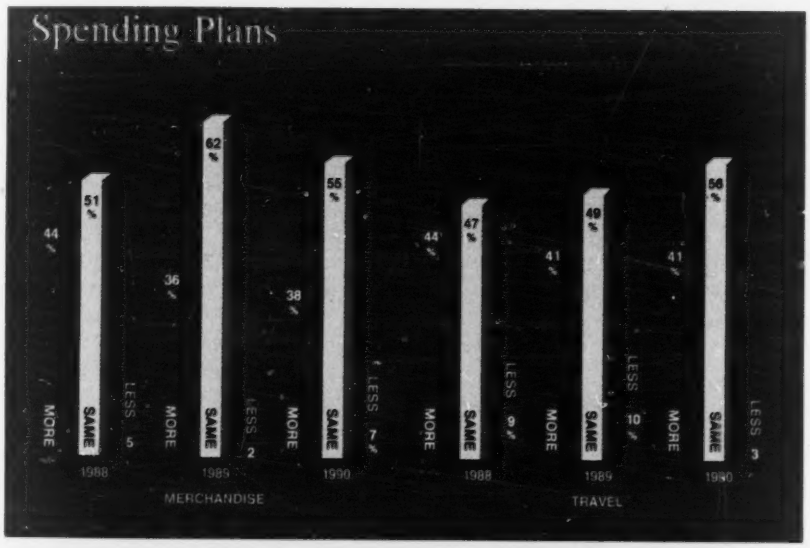
According to the survey, programs for dealers—which helped boost sales 18 percent each year from 1985 through 1987, and 16 percent in the last two years—are now producing gains averaging 14.8 percent.

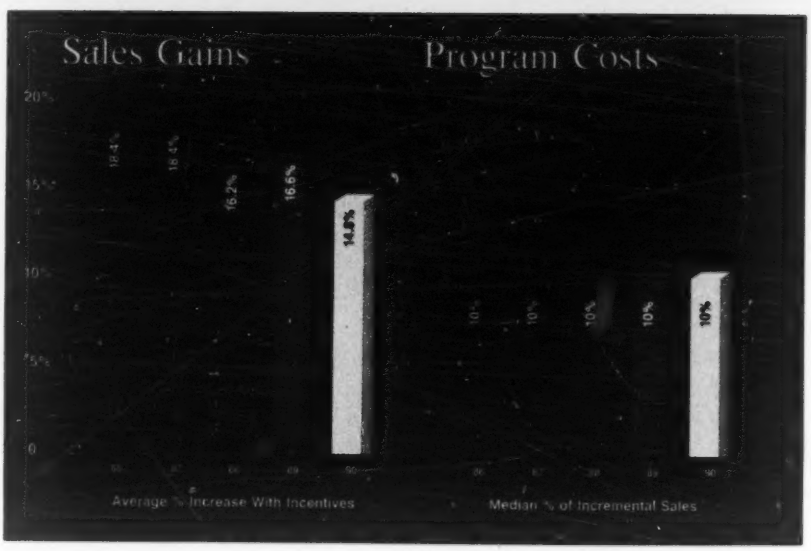
The result probably accounts for a drop in marketers' dealer incentive spending plans for this year. Survey respondents predict only a 2.9 percent growth in their dealer promotions, based on budget figures submitted for 1989 and 1990. With the lighter sales yields in their programs, many users may be spending fewer dollars on promotion.

The drop in sales gains is accompanied by a corresponding small increase in the campaign cost—expressed as a percentage of incremental volume—of 11.6 percent, up from 10.7 percent a year ago. The median, however, stayed at 10 percent, marking the seventh consecutive year at that mark.

Despite projected lower budgets, companies do report a heightened level of activity on the dealer front. The *number* of promotions has increased by 9 percent over a year ago, and two out of five companies said they are spending more, though their increases barely equal the rate of inflation.

Respondents are running a median of three merchandise incentive programs per year, up from two a year ago, while travel-only campaigns are holding at a median of one per year. Combination plans—programs





Participation levels have stayed about the same.

offering a mix of merchandise and travel awards—show a median of two per year, up from one a year ago.

Participation levels have stayed basically the same, averaging 51 percent of the dealer force for all programs. The trend has swayed slightly toward merchandise awards, with 52 percent of dealers winning merchandise and 49 percent earning travel awards. Last year, those numbers were 55 and 47 respectively.

In the unit cost of awards, there is a mixed picture. The median cost of a piece of merchandise jumped significantly to $60, up from $50 in four of the past five years. The average cost declined a bit to $160, from the highs of $195 last year and $228 in 1988; the new figure is closer to where it had been in several previous years, indicating that some users have now pulled back from very big-ticket awards.

On the other hand, unit expenditures for travel awards declined to an average of $1,990, down from $2,028, and the median dropped to $1,500 from $1,850. But the per-person trip cost rose, suggesting that a smaller percentage of this year's users include spouses on their trips. The per-person median is now $1,300, compared with $1,200 a year ago, and the average has risen from $1,265 to $1,535.

Wholesalers and distributors are the primary recipients of incentive awards, but they are less dominant among this year's survey respondents than last year's. About 49 percent of users offer incentives to this group, down from 57 percent in 1989. There has been a corresponding increase in promotion to some retail dealers, particularly grocers, drugstores and service stations; these users target them in 13, 9 and 6 percent of cases, respectively, with each figure almost double the reports of a year ago.

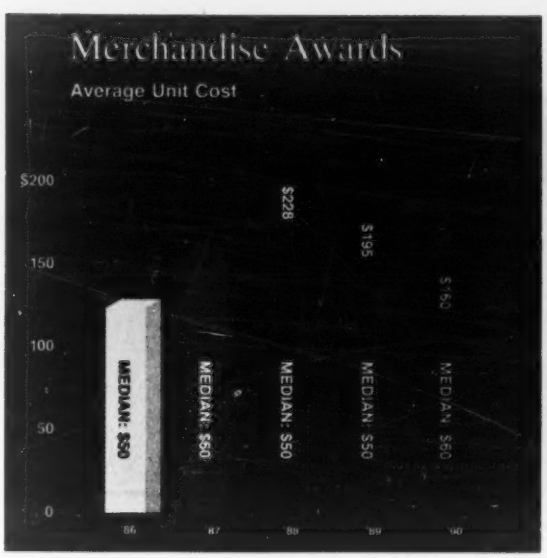
Of specialty stores, 21 percent now offer incentives, compared with 13 percent last year. Variety and department stores account for another 4 percent of promotions. Others that receive awards include commercial or industrial dealers (16 percent) and service contractors (10 percent). The reports exceed 100 percent because the average respondent targets more than one type of dealer.

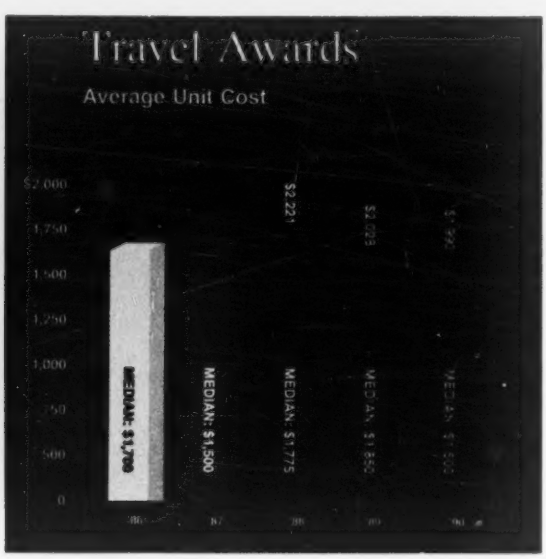
Most incentive users apply programs to selected groups of products, in order to fit particular marketing needs. Some 51 percent indicate that approach in the present survey, up from 45 percent in the previous one. About 29 percent, fewer than in the past, promote a full line, while only 20 percent put their entire effort behind a single item.

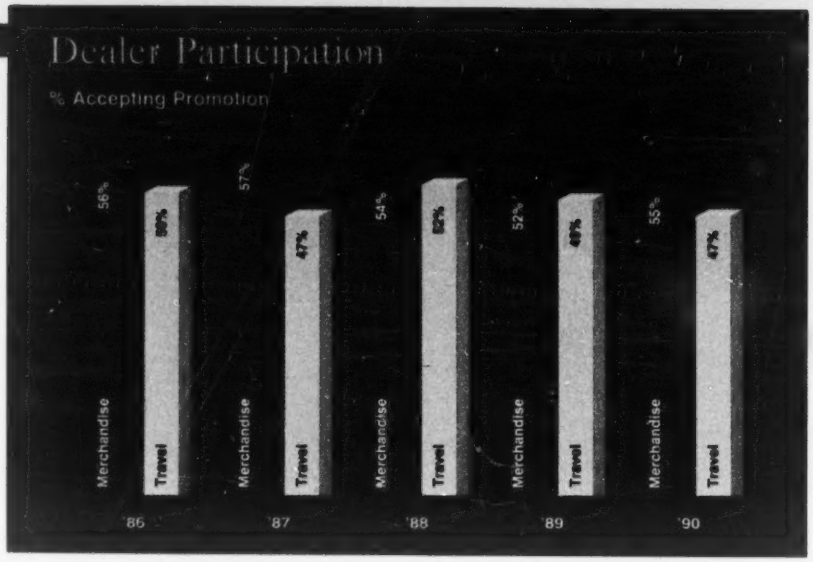
Lead times? Some executives in the survey reported planning a program in as little as two or three weeks, but they were in the distinct minority. More common is a planning cycle that runs up to a full year for merchandise-based programs and close to two years for travel campaigns. The average length for merchandise programs is 13 weeks, and for travel, 26 weeks—the same averages reported in the 1989 survey.

The nature of the promotion and the duration of the qualification period will, of course, influence the planning time somewhat. The actual selling period averages about nine weeks for the special deal offering a merchandise incentive with a specified product assortment or dollar volume.

During the planning and early stages of the promotion period, the user spends an average of 15 percent of total budget for promotion to the trade in support of the incentive offer —up from 10 percent in the last sur-







vey. This leaves 85 percent to pay for the cost of the awards themselves, versus the 90 percent that was available to the 1989 respondent.

Executives were asked, "What do you consider the major advantage of offering merchandise or travel incentives to dealers, versus cash discounts of comparable cost?" Some cited price integrity. As a Midwestern building-materials executive puts it, "The incentive does not introduce a new price. When the contest is over, you don't have to go back to customers and 'raise prices' back to prediscount levels."

Cash discounts, according to an Illinois electrical wholesaler, "tend to degrade price levels for future sales. Premiums have the connotation of 'something for nothing.' " An auto manufacturer comments that "motivation is an added benefit for added performance. Cash discounts become part of the product cost."

The motivational effect of programs is the top factor for many. An Eastern manufacturer notes that "by tying the dealer into a long-term promotion, we basically lock that dealer into our company as he earns more credit toward a trip with intended purchase."

A truck manufacturer with a large travel program finds that "travel is more glamorous and exciting to promote. Cash can have negative effects—the dealer could sell fewer units and still make the same amount of money using a cash discount."

Recognition value is especially important to a maker of heating and air-conditioning equipment: "A tangible award that broadcasts 'I'm a winner' has a greater value to the recipient and the people around that person, because you gain all that wonderful PR and advertising exposure. Cash is received by the winner and spent—none of the residual value is there."

Some respondents point to the ephemeral quality of cash. "The cash," says an Eastern association executive, "disappears into the dealer's bookkeeping. Merchandise awards are our usual award system, with travel programs being the periodic major award for top producers." A manufacturer of agricultural chemicals believes that "providing the merchandise or travel incentives offers a perceived value. They offer a longer-lasting impact versus cash in the customer's mind."

"Travel," says a recreational-vehicle manufacturer, "provides the opportunity for super-achievers to share their techniques with less-skilled or perhaps new dealers. Camaraderie established between the company and its dealers, salesmen and dealers, and between dealers, is worth more than any cash discounts will repay."

A farm equipment executive says that travel "appeals to the individual's pride of accomplishment—with an opportunity for a trip which otherwise may not be taken, or the stature of the first-class accommodations may otherwise have been deemed unaffordable or excessive." Notes a Western heating and air-conditioning distributor, "It brings the dealer group closer together."

"With an incentive, we can establish our own image and identity, i.e., quality image, which can be pro-

HOW THEY DO IT

WHO MAKES FINAL BUYING DECISION

- 60% Pres., CEO, exec. VP or gen. mgr.
- 25% Director of sales or marketing
- 8% Product manager or merchandising manager
- 8% Director of advertising or sales promotion

HOW DEALER INCENTIVES ARE PROMOTED

- 80% Company sales force
- 54% Direct mail
- 28% Literature with product
- 35% Dealer sales meetings
- 24% Trade shows
- 15% Wholesalers or brokers
- 12% Trade-paper ads

WHEN MOST PROMOTIONS ARE LAUNCHED

14% January	8% July
6% February	6% August
11% March	13% September
8% April	9% October
7% May	5% November
10% June	4% December

What Can Dealer Incentives Do?

% of Respondents Reporting Each Objective

61%	Increase Overall Volume	25%	Move Full Line/ Slow Items
43%	Introduce New Product	23%	Bolster Slow Season
39%	Sell New Accounts	23%	Build Dealer Traffic
35%	Improve Morale/ Good Will	21%	Support Consumer Promotion
29%	Offset Competition	12%	Prepare For Strong Season

Incentive users evaluate the success of their campaigns in several ways, including measuring the number of dealer orders, factory shipments or new accounts opened.

moted," a Southern insurance executive points out. An Eastern electrical manufacturer states: "Competition can also offer cash discounts. Incentives are more unique."

While many of these incentive values fall on the psychological side of the spectrum, the users do measure results where it counts—in sales. How do they evaluate the gains? Of five types of measurement presented in the questionnaire, 46 percent cite dealer orders as their touchstone. (The percentages exceed 100 because multiple criteria are applied by many of the marketers.) Factory shipments are a close second, tallied by 41 percent of the respondents. Another 39 percent count the number of new accounts opened, while 32 percent look at sales-force reports. Only 5 percent use store audits to measure performance. □

Award Particulars

▶ **Type of award most often used as dealer incentive:**
(% OF TOTAL RESPONDENTS)

- 50% Own merchandise catalogue or selection
- 31% Single premium or few related items
- 30% Individual travel
- 26% Group travel
- 25% Merchandise from incentive firm's catalogue

▶ **Type of merchandise considered most effective:**

- 51% Personal items
- 44% Home or family items
- 26% Business-use items

▶ **How merchandise premiums are delivered:**

- 60% Shipped separately
- 37% Delivered by sales force
- 4% Packed by product

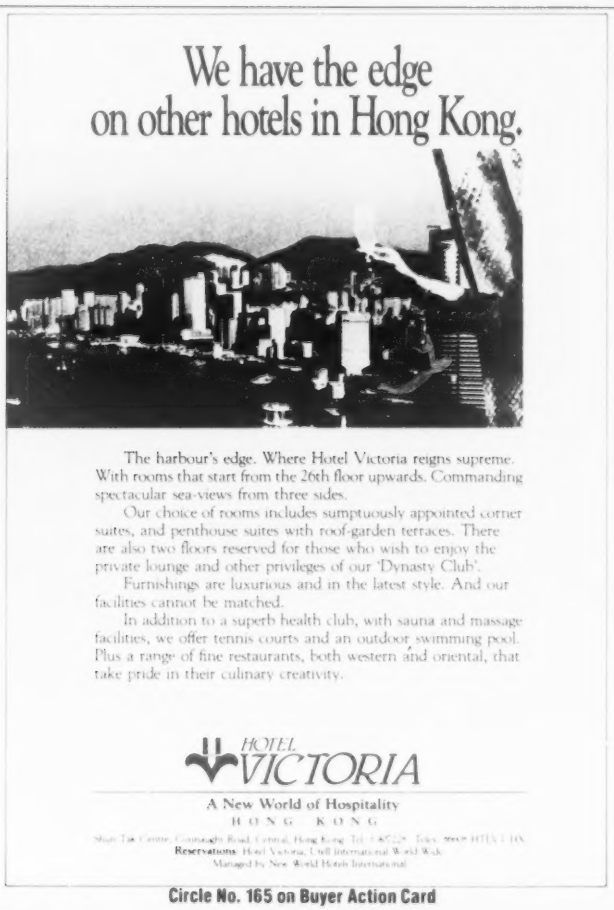
▶ **Type of supplier generally used:**

MERCHANDISE AWARDS

- 46% Wholesaler or premium jobber
- 42% Direct from manufacturer
- 23% Manufacturers' rep
- 22% Full-service incentive firm

TRAVEL AWARDS

- 52% Make own arrangements
- 29% Travel wholesaler
- 28% Full-service incentive firm
- 18% Travel carrier or hotel


We have the edge
on other hotels in Hong Kong.
The harbour's edge. Where Hotel Victoria reigns supreme. With rooms that start from the 26th floor upwards. Commanding spectacular sea-views from three sides.
Our choice of rooms includes sumptuously appointed corner suites, and penthouse suites with roof-garden terraces. There are also two floors reserved for those who wish to enjoy the private lounge and other privileges of our 'Dynasty Club'.
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